

# Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended.

Local Government Type <input type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Government Name <b>Ontonagon Housing Commission</b>	County <b>Ontonagon</b>
Audit Date <b>6/30/04</b>	Opinion Date <b>2/17/05</b>	Date Accountant Report Submitted to State: <b>3/11/05</b>	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

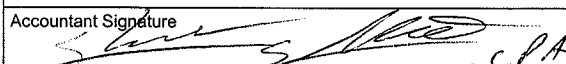
1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- |   |   |
|---|---|
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.   |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).  |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).  |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.   |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).   |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.   |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year). |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).   |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).  |

We have enclosed the following:	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	✓		
Reports on individual federal financial assistance programs (program audits).			✓
Single Audit Reports (ASLGU).			✓

Certified Public Accountant (Firm Name) <b>Anderson, Tackman &amp; Company, PLC</b>			
Street Address <b>Po Box 828, 201 E. Hughitt</b>		City <b>Iron Mountain</b>	State <b>MI</b>
Accountant Signature 		ZIP <b>49801</b>	Date <b>3-11-05</b>

**ONTONAGON HOUSING COMMISSION**

**REPORT ON FINANCIAL STATEMENTS**

(with additional information)

For the Year Ended June 30, 2004

## ONTONAGON HOUSING COMMISSION

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**ANDERSON, TACKMAN & COMPANY, P.L.C.**  
CERTIFIED PUBLIC ACCOUNTANTS

*A Regional Firm with Offices in Michigan and Wisconsin*

Principals - Iron Mountain:  
L. Robert Schaut, CPA  
David J. Johnson, CPA  
Shane M. Ellison, CPA

Member of:  
Private Companies Practice Section  
American Institute of Certified  
Public Accountants

**INDEPENDENT AUDITORS' REPORT**

Board of Commissioners  
Ontonagon Housing Commission  
Ontonagon, Michigan

We have audited the accompanying basic financial statements of the business-type activities of the Ontonagon Housing Commission as of and for the year ended June 30, 2004 as listed in the table of contents. These basic financial statements are the responsibility of the Commission's management. Our responsibility is to express an opinion on these basic financial statements based on our audit.

We conducted our audit in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in "Government Auditing Standards", issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the basic financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the basic financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall basic financial statements presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of the Ontonagon Housing Commission as of June 30, 2004, and the respective changes in financial position and cash flows, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with "Government Auditing Standards", we have also issued our report dated February 17, 2005 on our consideration of the Ontonagon Housing Commission's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with "Government Auditing Standards" and should be read in conjunction with this report in considering the results of our audit.

As described in Note A to the financial statements, the Commission adopted the provisions of Governmental Accounting Standards Board Statement No. 34, *Financial Statements-and Management's Discussion and Analysis-For State and Local Governments* and Governmental Accounting Standards Board Statement No 37, an amendment of Statement No. 34. This results in a change in the format and content of the financial statements.

The Management's Discussion and Analysis on pages 5 through 8 is not a required part of the financial statements but is required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the financial statements taken as a whole. The supplementary information listed in the table of contents is presented for the purpose of additional analysis and is not a required part of the financial statements of the Ontonagon Housing Commission. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated in all material respects in relation to the financial statements taken as a whole.



ANDERSON, TACKMAN & COMPANY, PLLC  
Certified Public Accountants  
Iron Mountain, Michigan

February 17, 2005

## MANAGEMENT DISCUSSION AND ANALYSIS (UNAUDITED)

Our discussion and analysis of the Ontonagon Housing Commission's financial performance provides an overview of the financial activities for the year ended June 30, 2004. Please read it in conjunction with the Commission's financial statements, which begin on page 9.

### FINANCIAL HIGHLIGHTS

- The Commission's net assets were reported for the first time under GASB 34. As such, no comparisons with prior years will be made. In future years, comparative information will be presented in various schedules throughout the MD&A. Net assets for the entire Commission were reported at \$1,155,166.
- During the year, the Commission's operating revenues totaled \$295,515, or 98.6% of total revenues, while operating expenses totaled \$336,157 or 100% of total expenses.

### USING THIS REPORT

This annual report consists of a series of financial statements. The Statement of Net Assets, Statement of Activities and the Statement of Revenues, Expenses and Change in Net Assets (on pages 9 to 11) provide information about the activities of the Commission as a whole and present a longer-term view of the Commission's finances.

### REPORTING THE COMMISSION AS A WHOLE

Our analysis of the Commission as a whole begins on page 9. One of the most important questions asked about the Commission's finances is "Is the Commission, as a whole, better off or worse off as a result of the year's activities?" The Statement of Net Assets, Statement of Activities and the Statement of Revenues, Expenses, and Change in Net Assets report information about the Commission as a whole and about its activities in a way that helps answer this question. These statements include *all* assets and liabilities using the *accrual basis of accounting*, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid. These two statements report the Commission's *net assets* and changes in them. You can think of the Commission's net assets – the difference between assets and liabilities – as one way to measure the Commission's financial health, or *financial position*. Over time, *increases or decreases* in the Commission's net assets are one indicator of whether its *financial health* is improving or deteriorating. You will need to consider other non-financial factors, however, such as changes in the population of low income and elderly individuals.

In the Statement of Net Assets, Statement of Activities and the Statement of Revenues, Expenses, and Change in Net Assets, the Commission's activities are reported as business-type activities:

- Business-type activities – The Commission charges rent to tenants to help it cover all or most of the costs of services it provides.

## REPORTING THE COMMISSION'S MOST SIGNIFICANT FUNDS

Our analysis of the Commission's major activities begins on page 9. The financial statements provide detailed information on all of the Commission's activities. The Commission uses proprietary funds to account for its activities. The method of accounting for proprietary funds is explained below.

- *Proprietary funds* – The Commission charges tenants rent for the housing services it provides and these services are reported in a proprietary fund. Proprietary funds are reported in the same way for its activities and are reported in the Statement of Net Assets and the Statement of Revenues, Expenses, and Change in Net Assets.

## THE COMMISSION AS A WHOLE

The Commission's combined net assets at June 30, 2004 decreased \$(36,588) from June 30, 2003.

**Table 1**  
**Net Assets**

<b>Assets:</b>	
Current and other assets	\$ 282,639
Capital assets (net)	<u>908,377</u>
Total assets	<u>1,191,016</u>
<b>Liabilities:</b>	
Current and other liabilities	<u>35,850</u>
Total liabilities	<u>35,850</u>
<b>Net Assets:</b>	
Invested in capital assets, net of related debt	908,377
Unrestricted	<u>246,789</u>
Net Assets	<u>\$1,155,166</u>

Net assets of the Commission stood at \$1,155,166. Unrestricted net business assets were \$246,789. In general, the Commission's unrestricted net assets are used to fund operations of the Commission.

**Table 2**  
**Change in Net Assets**

**Revenues:**

Program revenues:	
Charges for services	\$ 144,441
Program grants & subsidies	146,937
General revenues:	
Other income	4,137
Unrestricted investment earnings	<u>4,079</u>

Total revenues	299,594
----------------	---------

**Program Expenses:**

Operating expenses	336,157
Other expenses	<u>25</u>

Change in net assets	(36,588)
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Net assets – beginning of period	<u>1,191,754</u>
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Net assets – end of period	<u>\$1,155,166</u>
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**BUSINESS-TYPE ACTIVITIES**

Revenues for the Commission totaled \$299,549. The Commission's average unit months leased on a monthly basis had decreased during the current year. In addition, HUD operating funds and capital funding grants had increased during the current year. The Commission depends on HUD operating and capital grants to assist in covering its operating expenses.



## **CAPITAL ASSET AND DEBT ADMINISTRATION**

### **Capital Assets**

At the end of fiscal 2004, the Commission had \$2,366,179 invested in a variety of capital assets including land, equipment and buildings as follows:

**Table 3**  
**Capital Assets at June 30, 2004**  
**Business – Type Activity**

Land and improvements	\$ 345,662
Buildings and improvements	1,900,411
Equipment	<u>120,106</u>
Total cost	2,366,179
Less accumulated depreciation	<u>(1,457,802)</u>
<b>NET CAPITAL ASSETS</b>	<b><u>\$ 908,377</u></b>

The Commission invested \$94,460 in capital assets during the year ended June 30, 2004.

### **ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES**

The Commission's appointed officials considered many factors when setting the budget for the fiscal year 2004/2005 budget. The current availability of low income and elderly tenants has been a major contributing factor in establishing the budgeted amounts. In the upcoming year, we do not anticipate any significant change in the occupancy rate and availability of new tenants that will provide any substantial increase in revenues. There continues to be a variety of inflationary cost and expense issues out of the control of the Commission. All of these were taken into consideration during the 2004/2005 budget process.

### **CONTACTING THE COMMISSION'S FINANCIAL MANAGEMENT**

This financial report is designed to provide the readers with a general overview of the Commission's finances and to show the Commission's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Commission's Executive Director, Sally Jarvey, at 100 Cane Court, Ontonagon, Michigan 49953, or call 906-884-2258.

**ONTONAGON HOUSING COMMISSION**

**STATEMENT OF NET ASSETS  
Proprietary Fund**

June 30, 2004

CURRENT ASSETS:	
Cash and equivalents	\$ 281,379
Accounts receivable	4
Inventories	472
Prepaid expenses	<u>784</u>
TOTAL CURRENT ASSETS	<u>282,639</u>
NONCURRENT ASSETS:	
Capital assets	2,366,179
Less accumulated depreciation	<u>(1,457,802)</u>
NET CAPITAL ASSETS	<u>908,377</u>
TOTAL ASSETS	<u>\$ 1,191,016</u>
CURRENT LIABILITIES:	
Accounts payable	\$ 8,443
Accrued liabilities	<u>23,156</u>
TOTAL CURRENT LIABILITIES	31,599
OTHER LIABILITIES	<u>4,251</u>
TOTAL LIABILITIES	<u>35,850</u>
NET ASSETS:	
Investment in capital assets, net of related debt	908,377
Unrestricted net assets	<u>246,789</u>
NET ASSETS	<u>\$ 1,155,166</u>

The accompanying notes to financial statements are an integral part of this statement.





ANDERSON, TACKMAN  
& COMPANY, P.L.C.  
CERTIFIED PUBLIC ACCOUNTANTS

## ONTONAGON HOUSING COMMISSION

### STATEMENT OF ACTIVITIES

For the Year Ended June 30, 2004

<u>FUNCTIONS/PROGRAMS</u>	<u>Program Revenue</u>			<u>Net (Expense) Revenue and Changes in Net Assets</u>
	<u>Expenses</u>	<u>Fees, Fines and Charges for Services</u>	<u>Operating Grants and Contributions</u>	
			<u>Capital Grants and Contributions</u>	<u>Business-Type Activities</u>
<u>BUSINESS-TYPE ACTIVITIES:</u>				
Public Housing	\$ 336,182	\$ 144,441	\$ 146,937	\$ (44,804)
General revenues:				
Unrestricted investment earnings				4,079
Other				4,137
Total general revenues				8,216
Changes in net assets				(36,588)
NET ASSETS, beginning of year				1,191,754
NET ASSETS, end of year				\$ 1,155,166

The accompanying notes to the financial statements are an integral part of this statement.

**ONTONAGON HOUSING COMMISSION**

**STATEMENT OF REVENUES, EXPENSES, AND CHANGE  
IN NET ASSETS  
Proprietary Fund**

For the Year Ended June 30, 2004

OPERATING REVENUES:	
Tenant revenue	\$ 144,441
Program grants-subsidies	146,937
Other income	<u>4,137</u>
 TOTAL OPERATING REVENUES	 <u>295,515</u>
OPERATING EXPENSES:	
Administration	81,877
Utilities	80,312
Maintenance	72,011
General	15,349
Extraordinary maintenance	10,352
Depreciation	<u>76,256</u>
 TOTAL OPERATING EXPENSES	 <u>336,157</u>
 OPERATING (LOSS)	 <u>(40,642)</u>
OTHER INCOME (EXPENSES):	
(Loss) on sale of capital assets	(25)
Interest income	<u>4,079</u>
 TOTAL OTHER INCOME (EXPENSES)	 <u>4,054</u>
 CHANGE IN NET ASSETS	 <u>(36,588)</u>
 NET ASSETS, BEGINNING OF YEAR	 <u>1,191,754</u>
 NET ASSETS, END OF YEAR	 <u>\$ 1,155,166</u>

The accompanying notes to financial statements are an integral part of this statement.



# ONTONAGON HOUSING COMMISSION

## **STATEMENT OF CASH FLOWS**

### **Proprietary Fund**

For the Year Ended June 30, 2004

#### OPERATING ACTIVITIES:

Cash received from customers	\$ 153,352
Cash received from grants and subsidies	146,937
Cash payments to suppliers for goods and services	(136,719)
Cash payments for wages and related benefits	(116,453)
Cash payments for payment in lieu of taxes	(6,245)
Other receipts	<u>4,137</u>

NET CASH PROVIDED FROM OPERATING ACTIVITIES 45,009

#### CAPITAL AND RELATED FINANCING ACTIVITIES:

Acquisition of capital assets	<u>(94,460)</u>
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NET CASH (USED) BY CAPITAL AND  
RELATED FINANCING ACTIVITIES (94,460)

#### INVESTING ACTIVITIES:

Proceeds from investments	40,000
Investment income	<u>4,079</u>

NET CASH PROVIDED FROM INVESTING ACTIVITIES 44,079

NET (DECREASE) IN CASH AND EQUIVALENTS (5,372)

CASH AND EQUIVALENTS, BEGINNING OF YEAR 286,751

CASH AND EQUIVALENTS, END OF YEAR \$ 281,379

#### RECONCILIATION OF OPERATING INCOME TO NET

##### CASH PROVIDED BY OPERATING ACTIVITIES:

Operating income (loss)	\$ (40,642)
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation	76,256
Changes in assets and liabilities:	
Decrease (Increase) in receivables	8,911
Decrease (Increase) in prepaid expenses	423
Increase (Decrease) in accounts payable	(1,531)
Increase (Decrease) in accrued liabilities	1,192
Increase (Decrease) in other liabilities	<u>400</u>

NET CASH PROVIDED FROM OPERATING ACTIVITIES \$ 45,009

The accompanying notes to financial statements are an integral part of this statement.



## ONTONAGON HOUSING COMMISSION

### **NOTES TO FINANCIAL STATEMENTS**

June 30, 2004

#### **NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

##### **THE REPORTING ENTITY**

The Ontonagon Housing Commission (Commission) was formed under the criteria established for low income housing programs by the United States Department of Housing and Urban Development. The Commission operates under a board of commissioners appointed by the Village of Ontonagon.

The Commission, for financial reporting purposes, includes all of the activities relevant to its operations.

##### **Component Unit**

In evaluating how to define the Commission, for financial reporting purposes, management has considered all potential component units. The decision to include a potential component unit in the reporting entity was made by applying the criteria set forth in GAAP, currently GASB Statement #14, "*The Financial Reporting Entity*".

The criteria established by the governmental Accounting Standards Board for determining the various governmental organizations to be include in the reporting entity's financial statements include budget adoption, taxing authority, funding, appointment of the respective governing board, and scope of public service.

Based on the foregoing criteria, it was determined that there are no component units of the Ontonagon Housing Commission nor is the Commission a component unit of another entity.

The accounting policies of the Commission conform to accounting principles generally accepted in the United States of America. The following is a summary of such significant policies.

##### **BASIS OF PRESENTATION**

During the year the Commission adopted Governmental Accounting Standards Board (GASB) Statement No. 34, which substantially revised the financial statement presentation as described below.

##### **Government-Wide Financial Statements:**

The Statement of Net Assets, Statement of Activities and Statement of Revenues, Expenses and Change in Net Assets display information about the Commission as a whole. They include all business-type activities of the Commission. Business-type activities are financed in whole or in part by fees charged to external parties for goods or services.

## **ONTONAGON HOUSING COMMISSION**

### **NOTES TO FINANCIAL STATEMENTS**

June 30, 2004

(Continued)

#### **NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

##### **BASIS OF PRESENTATION (Continued)**

###### **Proprietary Fund**

Proprietary Funds are used to account for operations (a) which are financed and operated in a manner similar to private business enterprises - where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

##### **MEASUREMENT FOCUS AND BASIS OF ACCOUNTING**

Measurement focus is a term used to describe "which" transactions are recorded within the various financial statements. Basis of accounting refers to "when" transactions are recorded regardless of the measurement focus applied.

###### **Measurement Focus:**

The government-wide Statement of Net Assets, Statement of Activities and the Statement of Revenues, Expenses and Change in Net Assets are presented using the economic resource measurement focus as defined below.

- a. The Commission utilizes an "economic resources" measurement focus. The accounting objectives of this measurement focus are the determination of operating income, changes in net assets, financial position and cash flows. All assets and liabilities, whether current or noncurrent, associated with their activities are reported.

###### **Basis of Accounting:**

The Statement of Net Assets, Statement of Activities and Statement of Revenues, Expenses and Change in Net Assets are presented using the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recorded when the liability is incurred or economic asset used. Revenues, expenses, gains, losses, assets and liabilities resulting from exchange and exchange-like transactions are recognized when the exchange takes place.

As allowed by GASB Statement No. 20, the Commission's business-type activity follows all GASB pronouncements and FASB Statements and Interpretations that were issued on or after November 30, 1989, except those that conflict with a GASB pronouncement.



# ONTONAGON HOUSING COMMISSION

## NOTES TO FINANCIAL STATEMENTS

June 30, 2004

(Continued)

### NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### ASSETS, LIABILITIES AND NET ASSETS

- a. Cash and Equivalents – The Commission's cash and cash equivalents as reported in the Statement of Cash Flows and the Statement of Net Assets are considered to be cash on hand, demand deposits and short-term investments with maturities of three months or less.
- b. Receivables – All receivables are reported at their gross value and, where appropriate, are reduced by the estimated portion that is expected to be uncollectable.
- c. Inventory – Inventory is recorded at the lower of cost or market and primarily consisted of maintenance supplies and materials.
- d. Due to and Due From Other Programs – Interprogram receivables and payables arise from interprogram transactions and are recorded by all funds affected in the period in which transactions are executed.
- e. Capital Assets – Capital assets purchased or acquired are capitalized at historical cost or estimated historical cost. Donated capital assets are valued at their estimated fair market value on the date received.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Improvements are capitalized and depreciated over the remaining useful lives of the related capital assets.

Depreciation on all assets is provided on the straight-line basis over the estimated useful lives as follows:

Buildings and improvements	10-40 years
Furniture and other equipment	5-10 years

The Commission has adopted a capitalization policy for capital assets of \$200 per item.

- f. Compensated Absences - It is the Commission's policy to permit employees to accumulate a limited amount of earned but unused sick leave and vacation days, which will be paid to employees upon separation from the Commission. The cost of vested sick leave and vacation days are recognized as an expense as earned by the employees.
- g. Equity Classification

Government-Wide Statements:

Equity is classified as net assets and displayed in two components:

1. Invested in capital assets – Consists of capital assets, net of accumulated depreciation



## **ONTONAGON HOUSING COMMISSION**

### **NOTES TO FINANCIAL STATEMENTS**

June 30, 2004

(Continued)

#### **NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

##### **ASSETS, LIABILITIES AND NET ASSETS (Continued)**

2. Unrestricted net assets – All other net assets that do not meet the definition of “restricted” or “invested in capital assets, net of related debt.”

##### **REVENUES AND EXPENSES**

Operating revenues and expenses are those that result from providing services and producing and delivering goods and/or services. It also includes all revenue and expenses not related to capital and related financing, noncapital financing or investing activities. Expenses are classified by operating and nonoperating and are subclassified by function such as salaries, supplies and contracted services.

##### **OTHER SIGNIFICANT ACCOUNTING POLICIES**

###### **Interprogram Activity:**

As a general rule, the effect of activity between programs has been eliminated from the government-wide statements.

The transfers of cash between the various Authority programs are reported separately from revenues and expenses as operating transfers in or (out), unless they represent temporary advances that is to be repaid, in which case, they are carried as assets and liabilities of the advancing or borrowing program.

Interprogram receivables and payables are eliminated from the Statement of Net Assets.

###### **Budgets and Budgetary Accounting:**

Budgets are adopted on a basis prescribed or permitted by the Department of Housing and Urban Development. All annual appropriations lapse at fiscal year end. The Commission follows these procedures in establishing the budgetary date reflected in the financial statements:

1. The Director submits to the Board a proposed operating budget for the fiscal year commencing on July 1<sup>st</sup>. The operating budget includes proposed expenses and the means of financing them. Prior to June 30<sup>th</sup>, the budget is legally adopted by Board resolution.
2. Formal budgetary integration is employed as a management control device during the year.
3. The budget has been amended. Supplemental appropriations were made during the year with the last one approved prior to June 30<sup>th</sup>.

# ONTONAGON HOUSING COMMISSION

## NOTES TO FINANCIAL STATEMENTS

June 30, 2004

(Continued)

### **NOTE B - CASH AND INVESTMENTS**

The Commission maintains segregated cash and investment accounts which are specific to the activity to which they are available.

#### CASH AND EQUIVALENTS

Cash and equivalents consisted of:

Petty cash	\$ 65
Cash in checking	45,570
Savings accounts	143,212
Money market	<u>92,532</u>

TOTAL \$281,379

The bank balances were fully insured at June 30, 2004. Cash and equivalents are categorized as follow:

- Category 1- Insured or registered, with securities held by the Commission or its agent in the Commission's name.
- Category 2- Uninsured and unregistered, with securities held by the counterparty's trust department.
- Category 3- Uninsured and unregistered, with securities held by the counterparty, or by its trust department or agent but not in the Commissions name.

	<u>Category</u>			<u>Bank Balance</u>
	<u>1</u>	<u>2</u>	<u>3</u>	
Petty cash	\$ 65	\$ -	\$ -	\$ -
Checking account	45,570	-	-	46,210
Savings accounts	143,212	-	-	143,212
Money market	<u>92,532</u>	<u>-</u>	<u>-</u>	<u>92,532</u>
TOTAL	<u>\$281,379</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$281,954</u>



## **ONTONAGON HOUSING COMMISSION**

### **NOTES TO FINANCIAL STATEMENTS**

June 30, 2004

(Continued)

#### **NOTE C - CAPITAL ASSETS**

A summary of capital assets as of June 30, 2004 is as follows:

	Balance <u>7-1-03</u>	<u>Additions</u>	<u>Deletions</u>	Balance <u>6-30-04</u>
Land	\$ 39,627	\$ -	\$ -	\$ 39,627
Land improvements	306,035	-	-	306,035
Building & improvements	1,818,124	82,287	-	1,900,411
Equipment	<u>108,927</u>	<u>12,173</u>	<u>(994)</u>	<u>120,106</u>
	2,272,713	\$ <u>94,460</u>	\$ <u>(994)</u>	2,366,179
Accumulated depreciation	<u>(1,382,515)</u>	\$ <u>(76,256)</u>	\$ <u>969</u>	<u>(1,457,802)</u>
Net capital assets	\$ <u>890,198</u>			\$ <u>908,377</u>

Depreciation expense for the year was \$76,256.

#### **NOTE D - RISK MANAGEMENT**

The Commission is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Commission maintains commercial insurance covering each of those risks of loss. Management believes such coverage is sufficient to preclude any significant uninsured losses to the Commission. Settled claims have not exceeded this commercial coverage in any of the past three fiscal years.

#### **NOTE E - USE OF ESTIMATES**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.



**ONTONAGON HOUSING COMMISSION**

**NOTES TO FINANCIAL STATEMENTS**

June 30, 2004

(Continued)

**NOTE F – CURRENT VULNERABILITY DUE TO CERTAIN CONCENTRATIONS**

The Commission is dependent upon the Department of Housing and Urban Development (HUD) to fund its operations through operating subsidies and capital funding grants. Total operating revenues for the year ended June 30, 2004 totaled \$295,515 of which \$146,937 or 49.7% was from HUD subsidies and grants.

The operations of the project are subject to rules and regulations of HUD. These rules and regulations are subject to change. Such changes may occur with short notice and could create a lack of funding to pay for operational related costs, including the additional administrative burden to comply with the changes.

**NOTE G – PENSION PLAN**

The Commission has established a SEP-IRA plan of which the Commission contributes 8% of qualified wages. To be eligible, an employee must have twelve continuous months of service. The Commission contributions to the Plan during the year amounted to \$6,018.



**SUPPLEMENTAL  
INFORMATION**

# ONTONAGON HOUSING COMMISSION

## FINANCIAL DATA SCHEDULE Proprietary Fund

June 30, 2004

<u>Line Item #</u>	<u>Account Description</u>	<u>Low Rent Public Housing</u>	<u>Public Housing Capital Fund Program</u>	<u>TOTAL</u>
ASSETS:				
CURRENT ASSETS:				
Cash:				
111	Cash - unrestricted	\$ 281,379	\$ -	\$ 281,379
100	Total cash	281,379	-	281,379
Accounts and notes receivables:				
126	Accounts receivable- Tenants - Dwelling rents	4	-	4
126.1	Allowance for doubtful account - Dwelling rents	-	-	-
120	Total receivables, net of allowances for doubtful accounts	4	-	4
Current investments				
142	Prepaid expenses	784	-	784
143	Inventories	472	-	472
150	TOTAL CURRENT ASSETS	282,639	-	282,639
NONCURRENT ASSETS:				
Fixed assets:				
161	Land	39,627	-	39,627
162	Buildings	1,840,411	60,000	1,900,411
163	Furniture, equipment & machinery - dwellings	37,724	-	37,724
164	Furniture, equipment & machinery - administration	82,381	-	82,381
165	Leasehold improvements	306,036	-	306,036
166	Accumulated depreciation	(1,457,108)	(694)	(1,457,802)
160	Total fixed assets, net of accumulated depreciation	849,071	59,306	908,377
180	TOTAL NONCURRENT ASSETS	849,071	59,306	908,377
190	TOTAL ASSETS	\$ 1,131,710	\$ 59,306	\$ 1,191,016

See accompanying notes to financial statements



**ONTONAGON HOUSING COMMISSION**

**FINANCIAL DATA SCHEDULE  
Proprietary Fund**

June 30, 2004

<u>Line Item #</u>	<u>Account Description</u>	<u>Low Rent Public Housing</u>	<u>Public Housing Capital Fund Program</u>	<u>TOTAL</u>
LIABILITIES AND EQUITY:				
LIABILITIES:				
CURRENT LIABILITIES				
312	Accounts payable ≤ 90 days	\$ 8,443	\$ -	\$ 8,443
321	Accrued wages / payroll taxes payable	7,762	-	7,762
322	Accrued compensated absences - current portion	4,544	-	4,544
333	Accounts payable - other government	5,710	-	5,710
341	Tenant security deposits	5,140	-	5,140
310	TOTAL CURRENT LIABILITIES	31,599	-	31,599
354	Accrued compensated absences - non current	4,251	-	4,251
350	TOTAL NONCURRENT LIABILITIES	4,251	-	4,251
300	TOTAL LIABILITIES	35,850	-	35,850
EQUITY:				
Contributed Capital:				
508.1	Investment in capital assets, net of related debt	849,071	59,306	908,377
512.1	Unrestricted net assets	246,789	-	246,789
513	TOTAL EQUITY	1,095,860	59,306	1,155,166
600	TOTAL LIABILITIES AND EQUITY	\$ 1,131,710	\$ 59,306	\$ 1,191,016

See accompanying notes to financial statements



# ONTONAGON HOUSING COMMISSION

## **FINANCIAL DATA SCHEDULE Proprietary Fund**

For the Year Ended June 30, 2004

Line Item #	Account Description	Low Rent Public Housing	Public Housing Capital Fund Program	TOTAL
REVENUE:				
703	Net tenant rental revenue	\$ 143,806	\$ -	\$ 143,806
704	Tenant revenue - other	635	-	635
705	Total tenant revenue	144,441	-	144,441
706	HUD PHA grants	67,815	19,122	86,937
706.1	Capital grants	-	60,000	60,000
711	Investment income - unrestricted	4,079	-	4,079
715	Other revenue	4,137	-	4,137
716	Gain (Loss) on sale of fixed assets	(25)	-	(25)
700	TOTAL REVENUE	220,447	79,122	299,569
EXPENSES:				
Administrative				
911	Administrative salaries	46,309	-	46,309
912	Auditing fees	1,702	-	1,702
914	Compensated absences	833	-	833
915	Employee benefit contributions- administrative	21,475	-	21,475
916	Other operating- administrative	11,558	-	11,558
	Total Administrative	81,877	-	81,877
Utilities				
931	Water	14,564	-	14,564
932	Electricity	65,748	-	65,748
	Total Utilities	80,312	-	80,312
Maintenance				
941	Ordinary maintenance and operations - labor	29,641	-	29,641
942	Ordinary maintenance and operations - materials & other	13,669	-	13,669
943	Ordinary maintenance and operations - contract costs	8,871	-	8,871
945	Employee benefit contributions- ordinary maintenance	19,830	-	19,830
	Total Maintenance	72,011	-	72,011

See accompanying notes to financial statements





# ONTONAGON HOUSING COMMISSION

## FINANCIAL DATA SCHEDULE Proprietary Fund

For the Year Ended June 30, 2004

Line Item #	Account Description	Low Rent Public Housing	Public Housing Capital Fund Program	TOTAL
	General expenses			
961	Insurance premiums	9,778	-	9,778
963	Payments in lieu of taxes	5,710	-	5,710
964	Bad debt - tenant rents	(139)	-	(139)
	Total General Expenses	<u>15,349</u>	<u>-</u>	<u>15,349</u>
969	TOTAL OPERATING EXPENSES	<u>249,549</u>	<u>-</u>	<u>249,549</u>
970	EXCESS OPERATING REVENUE OVER OPERATING EXPENSES	<u>(29,102)</u>	<u>79,122</u>	<u>50,020</u>
971	Extraordinary maintenance	10,352	-	10,352
974	Depreciation expense	<u>75,562</u>	<u>694</u>	<u>76,256</u>
900	TOTAL EXPENSES	<u>335,463</u>	<u>694</u>	<u>336,157</u>
	Other financing sources (uses)			
1001	Operating transfers in	19,122	-	19,122
1002	Operating transfers out	<u>-</u>	<u>(19,122)</u>	<u>(19,122)</u>
1010	Total other financing sources (uses)	<u>19,122</u>	<u>(19,122)</u>	<u>-</u>
1000	EXCESS (DEFICIENCY) OF TOTAL REVENUE OVER (UNDER) TOTAL EXPENSES	<u>\$ (95,894)</u>	<u>\$ 59,306</u>	<u>\$ (36,588)</u>
MEMO account information				
1103	Beginning equity	\$ 1,131,821	\$ 59,933	\$ 1,191,754
1104	Prior Period Adjustments, Equity Transfers	\$ 59,933	\$ (59,933)	\$ -
1120	Unit months available	720	-	720
1121	Number of unit months leased	686	-	686

See accompanying notes to financial statements

**REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL  
REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED  
IN ACCORDANCE WITH "GOVERNMENT AUDITING STANDARDS"**

Board of Commissioners  
Ontonagon Housing Commission  
Ontonagon, Michigan

We have audited the financial statements of the business-type activities of the Ontonagon Housing Commission, as of and for the year ended June 30, 2004, which collectively comprise the Ontonagon Housing Commission's basic financial statements and have issued our report thereon dated February 17, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in "Government Auditing Standards", issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the Ontonagon Housing Commission's general purpose financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under "Government Auditing Standards". However, we noted certain immaterial instances of noncompliance that we have reported to management of the Ontonagon Housing Commission in a separate letter dated February 17, 2005.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Ontonagon Housing Commission's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the general purpose financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted other matters involving the internal control over financial reporting that we have reported to management of the Ontonagon Housing Commission, in a separate letter dated February 17, 2005.

This report is intended solely for the information of the Board of Commissioners, management and the Department of Housing and Urban Development and is not intended to be and should not be used by anyone other than those specified parties.

*Anderson Tackman & Co. P.C.*

ANDERSON, TACKMAN & COMPANY, P.L.C.  
Certified Public Accountants  
Iron Mountain, Michigan

February 17, 2005

ANDERSON, TACKMAN  
& COMPANY, P.L.C.  
CERTIFIED PUBLIC ACCOUNTANTS





**ANDERSON, TACKMAN & COMPANY, P.L.C.**  
CERTIFIED PUBLIC ACCOUNTANTS

*A Regional Firm with Offices in Michigan and Wisconsin*

Principals - Iron Mountain:  
L. Robert Schaut, CPA  
David J. Johnson, CPA  
Shane M. Ellison, CPA

Member of:  
Private Companies Practice Section  
American Institute of Certified  
Public Accountants

February 17, 2005

Board of Commissioners  
Ontonagon Housing Commission  
Ontonagon, Michigan

Dear Members of the Board:

In planning and performing our audit of the financial statements of the Ontonagon Housing Commission for the year ended June 30, 2004, we considered the entities internal control structure to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on the internal control structure.

During our audit we became aware of matters that are opportunities for strengthening internal controls and operating efficiency. The following summarizes our comments and suggestions regarding those matters. This letter does not affect our report dated February 17, 2005, on the financial statements of the Ontonagon Housing Commission.

1. During the review of tenant receipts it was noted that your receipts were not sequentially numbered from the beginning of the year to the end. Your receipts numbers varied depending on when they were provided by your fee accountant.

Recommendation

Your tenant receipts should be sequentially numbered with no break in sequence. This is imperative for maintaining control over your receipts. It is recommended that you have your fee accountant purchase a sequence of receipts just for your housing commission and utilize them just for you. This way your tenant receipt numbers will be consistent from one month to the next.

2. During the review of cash disbursements it was noted that the individual charge slips for the vendor "Carquest" were not attached to the invoice.

Recommendation

The Commission needs to require the maintenance men to turn in ALL individual charges slips from all vendors each month. The executive director should then accumulate those charge slips each month and compare them to the invoice at the end of the month once it is received. The individual charge slips should then be attached to the invoice upon approval for payment.

It is imperative that the executive director enforce this practice and policy with all staff. This procedure should be performed each month so as to verify that the Commission is being charged properly from its vendors.

3. It was also noted during the review of disbursements that the Commission's original invoices were mailed to its fee accountant and copies of those invoices were kept in the office.

Recommendation

The Commission should reverse its procedure. The original invoices should be kept in at the Commission while the copies of the invoices should be those that are provided to the fee accountant. This is important in the case that items are lost in the mail or some type of event were to occur at the fee accountant's location.

4. During the review of tenant files and tenant receipts it was noted that the Commission still accepts cash payments for tenant rents.

Recommendation

The Commission should consider changing its policies relative to accepting cash from tenants for their rent. It is important in any environment where limited staff are employed and segregation of duties is difficult to obtain. The policy of not accepting cash for payment of tenant rent would minimize the Commission's exposure to possible issues due to the lack of segregation of duties.

Ontonagon Housing Commission  
February 17, 2005  
Page 3

We thank you for the opportunity to be of service. Do not hesitate to contact us if you have any questions. I found your staff to be very cooperative and a pleasure to work with.

Very truly yours,

ANDERSON, TACKMAN & COMPANY, PLC

Shane M. Ellison, CPA  
Principal